



BLUE WOLF

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September 29, 2014

Sister Marjory Ann Baez
Chairperson of the Board
Daughter of Charity Health System
26000 Altamont Road
Los Altos Hills, CA 94022

Mr. Robert Issai
President & Chief Executive Officer
Daughter of Charity Health System
26000 Altamont Road
Los Altos Hills, CA 94022

Re: Daughter of Charity Health System

Dear Sister Marjory and Robert:

After what I am sure has been an extremely challenging process, I understand that you are nearing a final decision on selecting the party that will best secure the future of the Daughters of Charity Health System. As the individual who will serve as the Chief Executive Officer under one of those proposals, I wanted to reach out to communicate our commitment, hopes and vision for the System.

The core objectives which you have described for the future of the system - to have these hospitals provide both the highest quality healthcare to people regardless of their ability to pay and high quality, secure jobs with pensions for these employees - mirrors the objectives and values which have guided me and our team throughout our careers.

Beginning with our initial proposal of June 4, 2014 and continuing with our September 10th presentation to your advisors, our September 12th offer letter and our correspondence of September 19th, we have emphatically embraced your objectives.

In our most recent letter, accompanying our revised offer of September 28th, we also have removed our request that the Daughters provide financial assistance to the Hospitals as part of our transaction, eliminating what we have been told was the key concern with our prior proposals. (I have attached copies of each of these documents for your reference.)

We appreciate that the Daughters' wish to exit their involvement in the system with both their principles and pocketbook intact and that this will require that we bring:



- enough capital to assure that mission, healthcare and pensions are all preserved;
- a management team with a well-vetted track record of building sustainable organizations that operate in accordance with your values;
- a long-term vision of a stable and well-capitalized System deeply engaged with its communities.

Our proposal does exactly this. We will begin with the System having approximately \$300 million in liquidity. This will allow the System to make necessary investments in buildings and equipment, give employees confidence that their pensions will be paid and fund the costs required to implement needed changes in the System's operations. In addition to our economic resources, however, I want to emphasize that we bring people with demonstrated long-term track records of delivering healthcare consistent with your values and mission.

Let me start by giving you a sense of my deep commitment to healthcare. I began my career as a critical care physician, caring for patients in near death situations, as well as training young doctors to provide effective and compassionate care. When our hospital at the George Washington University fell into severe financial difficulties, I assumed leadership roles, first as Medical Director and then as CEO, where I designed and implemented programmatic growth strategies that expanded services, improved quality, built excellence throughout the hospital and improved operational efficiency. This resulted in the transformation of the hospital to a destination facility with a national reputation in many specialties and a margin from operations in excess of 12%.

Arriving at The Brooklyn Hospital Center in 2008 as President and CEO, I led the hospital's revitalization from insolvency to being widely recognized for quality and financial stability. During the past six years, our medical staff has grown with new physicians in every specialty and we are one of the few safety net hospitals in Brooklyn and New York City that has preserved its mission, developed clinical excellence, constructively partnered with labor and developed new and meaningful relationships with other medical institutions.

I would urge you to contact Sister Carol Keehan, President of the Catholic Health Association, with whom I worked when I was CEO of George Washington University Hospital, Dr. Nirav Shah, SVP and COO of Clinical Operations at Kaiser-Permanente, and the former commissioner of health for New York State, who is deeply familiar with my work at the Brooklyn Hospital or Dr. Stuart Levine, Executive Medical Director of Heritage Development Organization, and former Chief Medical Officer of HealthCare Partners. Contact information for each of them is attached to this letter.

Dick Wright, who will serve as Chairman of the System after our transaction, is a forty year veteran executive within the health care industry. As one of the first employees of Universal Health Services (UHS), and over the course of his distinguished career, Dick served as a



hospital CEO and ultimately as Senior Vice President of the UHS Acute Care Division with oversight of every hospital in the company. In the mid 1990's, Dick changed roles, serving as the executive responsible for all acute care acquisitions, where he continued to strengthen and grow the acute care division and also helped expand the behavioral health division into the largest provider of behavioral healthcare in the United States.

In addition, Dick has extensive experience in California. He led the acquisition of Lancaster Community Hospital and developed the 157 bed replacement hospital, Palmdale Regional Medical Center; led the acquisition of Corona Regional Medical Center, a 240 bed hospital located in Riverside County; and developed the strategic plan for the Southwest Healthcare System in Wildomar. Recently retired from this role, UHS remains one of the strongest national providers of high quality healthcare in the nation.

If you would like to hear from others about Dick, I would urge you to contact Charles Barnett of Ascension Health, Arnold Schaffer of Alvarez and Marsal, or John Calderone, Chief Executive Officer of Olympia Medical Center. Contact information for each of them is attached to this letter.

In choosing Blue Wolf as our financial partner, we selected a well-capitalized firm, with approximately \$500 million in assets under management, supported by a number of the largest institutional investors in the United States. As you know, Blue Wolf's investment in the Daughters will be the largest single investment in its Fund and will bring substantial fresh capital to the system. We selected Blue Wolf as a partner not only because they have the capital to create a stable future, but also because of their exceptional reputation. At the hospital I currently lead, we have formed a partnership with Blue Wolf to develop our outpatient network, allowing us to move quickly and confidently along a path to assure our long-term success.

If you would like to learn more about Blue Wolf, its managing partner Adam Blumenthal and their commitments both to healthcare and to meeting community needs, I would urge you to contact John Hamm, MD, former Premier of Nova Scotia and former President of the Medical Society of Nova Scotia, who served as chairman of a Blue Wolf portfolio company; Francine Parker, former CEO of the Henry Ford Health Plan and currently executive director of the UAW Retiree Medical Benefits Trust, a \$60 billion organization which provides retiree health benefits to over 800,000 people, where Adam serves as Trustee and chairs the investment committee, or Robert Naftaly, former Chief Operating Officer of Blue Cross Blue Shield of Michigan, who is the founding chairman of the UAW RMBT. Contact information for each of them is attached to this letter.

I hope this letter provides you with some insight beyond the legal and financial parameters of our proposal. We have nothing but the highest admiration for the tremendous job you have done in continuing to deliver high quality care through a most difficult financial period. Certainly, the decision with which you are faced is difficult and complicated: financial realities demand that you minimize impact to the Daughters and their other important work, the needs of the community demand that you select a responsible



management team that has a long standing commitment and demonstrated ability to deliver high quality care; social obligation means that you must ensure the well-being and future of the thousands of staff and their families who have dedicated years of hard work and service to providing care for the underserved; and finally your mission requires you to select a team that is committed to the critical role of the safety net in ensuring that everyone, regardless of their position in society, has access to a system that above all delivers value-based care with dignity and respect.

We are firmly convinced that our proposal meets all of these objectives and positions these hospitals to continue to play their vital role for years to come. As we have said before, we would be happy to sit with you and your Board directly to present ourselves and answer any questions that they might have.

Thank you again for your time and consideration.

Sincerely,

Richard Becker, MD

cc: Andrew Turnbull, Houlihan Lokey
John Chesley, Esq. Ropes & Gray